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C O N F I D E N T I A L SECTION 01 OF 02 VIENTIANE 000558

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TAGS: [PGOV](#) [PINR](#) [ECON](#) [EFIN](#) [ENRG](#) [LA](#)
SUBJECT: CABINET RESHUFFLE INCLUDES NEW FACE AT FINANCE
MINISTRY

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Classified By: Mary Grace McGeehan, Charge d'Affaires a.i. Reason: 1.5
b and d.

11. (C) Summary: In a cabinet reshuffle announced by the Prime Minister at the closing of the National Assembly, Finance Minister Chansy Phosikham was named to replace Somphet Thipmala as governor of Vientiane Province. Chansy's former deputy, Somdy Douangdy, became finance minister. Somphet became a vice minister of defense. The son of former "Red Prince" Souphanouvong, who served as the Lao People's Democratic Republic's first president, was appointed as a minister in the Prime Minister's office. Minister of Commerce and Industry Nam Viyaketh, one of the youngest and most progressive cabinet members, told the Charge that he is pleased by the appointment of the relatively youthful Somdy at Finance. The Prime Minister mentioned corruption several times in his opening and closing addresses to the National Assembly, and foreign newspapers speculated that the reshuffle was related to corruption concerns. End summary.

Prime Minister Announces Cabinet Reshuffle

12. (U) Prime Minister Bouasone Bouphavanh announced a cabinet reshuffle at the closing of the National Assembly's semi-annual two-week closing session on July 3, with members of the diplomatic corps, including the Charge, in attendance. Finance Minister Chansy Phosikham was named as governor of Vientiane Province, replacing Somphet Thipmala, who was appointed as a Vice Minister of Defense. Chansy's former deputy, Somdy Douangdy, becomes Finance Minister. There are three new ministers in the Prime Minister's office: Duangsavath Souphanouvong (formerly deputy chief of the Government Secretariat and a member of Laos's former royal family); Khempheng Polsena (formerly a vice president of the Asian Development bank and before that a Vice Foreign Minister), who oversees a newly established Water and Environment Authority; and Phouthong Sengarkhom, who will also keep his position as president of the National Sports Committee.

13. (U) Following the announcement, a National Assembly member complained during the session that members were expected to endorse such personnel changes without receiving biographic information or having time to reflect on the nominations. He also commented that the structure of the new water and energy body was unclear. The vote on the cabinet reshuffle was 98 in favor, 4 against, and 2 abstentions.

New Blood at Finance Ministry

¶4. (C) On the way out of the session, Minister of Commerce and Industry Nam Viyaketh, who is one of the youngest (born in 1958) and most progressive members of the Lao government, told the Charge that he was pleased with the new appointment at the finance ministry. Somdy, he said, is younger than his predecessor and will be "better."

¶5. (C) Former Finance Minister Chansy was selected for that position in 2003 in part because of the financial management skills he had displayed as governor of Luang Prabang Province from 1991 to 2002. His appointment as governor of Vientiane Province could be considered a demotion, but this is nonetheless a powerful position. Despite efforts to centralize revenue collection, provincial governors continue to wield considerable political and economic power. Vientiane province, which includes most of the former Saysomboune special zone (but does not include the city of Vientiane), is the site of major mining and hydropower projects. Chansy's new job is also politically sensitive. There has recently been renewed fighting in Vientiane Province between government forces and members of the dwindling but still active Hmong insurgency. In addition, the province is the home of a large number of ethnic Hmong living peacefully among the rest of the Lao population. Somphet had been governor of Vientiane Province since 2005; before that, he was governor of the Saysomboune Special Zone from 1998 to ¶2005. He is a retired general who maintains close ties with the military, making his appointment as a Vice Minister of Defense a logical move if not a step up.

¶6. (C) The Embassy's relations with Somphet have not always been smooth. In a courtesy call on him in May 2006, then-Ambassador Haslach expressed concern about reports from Amnesty International and others that members of the security forces had killed 26 ethnic Hmong civilians in the province

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on April 6, 2006 (reftel). Afterwards, Ministry of Foreign Affairs spokesperson Yong Chanthalangsy called a press conference in which he accused Ambassador Haslach of fabricating the massacre charges and threatening the governor. The threat accusation apparently reflected a misunderstanding or distortion of Ambassador Haslach's statement to Somphet that, if U.S. soldiers killed civilians, military officials would take action against them.

Biographic Information on Minister Samdy

¶7. (U) According to a resume provided by the Lao government, Finance Minister Samdy was born in Savannakhet province in 1952. He is from the Lowland Lao ethnic group. He served as Vice Minister of Finance from 2003 to 2007. From 2002 to 2003, he was Vice President of the Committee for Planning and Cooperation (now the Committee for Planning and Investment, the government body responsible for foreign investment). From 1999 to 2002, he was Director General at the Department of General Planning of the State Planning Committee. From 1983 to 1993, he was a technical officer in the Department of General Planning of the State Planning Committee. His education includes a master's degree in economics and politics from the International Administration Institute in Paris (1990-91) and another master's degree in economics and planning from the National University at Danetsk in the former Soviet Union (1976-83). He was appointed in 2007 as the Party Committee's secretary in the Finance Ministry. He speaks Lao, French, and Russian. He is married with children.

Other Cabinet Moves

¶8. (SBU) Among the less high-profile cabinet moves, the promotion of Douangsavat Souphanouvong is of interest because

he is a son of Prince Souphanouvong, a major figure in the history of the Pathet Lao. Souphanouvong, known as the "Red Prince," led the movement in opposing the government of his brother, Prince Souvanna Phouma. Following the Pathet Lao takeover in 1975, Souphanouvong became President of Laos, a position he held until 1986. He died in 1995. Prince Souphanouvong's oldest son, Khamsay, left Laos for New Zealand in 2000 while serving as minister for public enterprises and was granted political asylum there.

¶9. (U) As Minister in the Prime Minister's office responsible for a new Water and Environmental Affairs Authority, Khempheng Pholsena will be responsible for overseeing hydropower projects, a major and growing source of revenue in Laos. She had been Vice President for Finance and Administration at the Asian Development Bank since April ¶2004. Previously, she served as Vice Foreign Minister responsible for international cooperation. Other previous positions include Vice President of the Committee for Planning of Cooperation (2001-03) and Vice Minister in the Office of the Prime Minister (1997-2001). She speaks French, English, and Russian.

Comment

¶10. (C) In both his opening and closing remarks to the National Assembly, Prime Minister Bouasone referred to the need to eradicate corruption, and several foreign newspapers, including Bangkok's "The Nation," have speculated that this was the reason for the cabinet reshuffle. If so, former Vientiane Province governor Somphet and Finance Minister Chansy would be the logical targets. Lao officials accused of corruption are frequently shifted rather than punished. In Chansy's case, though, a shift to the potentially lucrative position of Vientiane provincial governor would appear to be an unlikely response to corruption concerns. It may be that Prime Minister Bouasone, who at 53 is himself one of the youngest members of the Lao government, is looking for new blood at the Finance Ministry. The current government has displayed a pattern of appointing relatively young and progressive ministers to economic portfolios. In addition to Nam Viyaketh and now Somdy Duongdy, this group includes Soulivong Daravong, the President of the Committee for Planning and Investment. We see Nam Viyaketh's enthusiasm about Somdy as a good sign. Of course, in the secretive world of the Lao government bureaucracy, it is difficult to know for sure why things happen. We will engage with our contacts to find out more about the new appointees and the reasons behind the reshuffle.

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